

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268

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POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

REPLY BRIEF OF THE
AMERICAN PUBLIC POWER ASSOCIATION

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The arguments offered by the Postal Service (Initial Brief, V-66-70), in opposition to the rationale presented by the American Public Power Association (APPA) supporting across-the-board reductions in card rates, are of little consequence. Although the Postal Service is not expressing its consent to any of APPA's proposed changes, the absence of a firm opposition to those changes implies that the Postal Service has no strong objection to the exercise by the Commission of its discretion to recommend some or all of APPA's proposals.

PRIVACY - The Postal Service criticizes APPA's witness' observation regarding privacy as "an exaggeration". USPS Init.Br.at V-69. Even if that witness' comment was an exaggeration, the well known fact is that a card received at a home, a fraternity or sorority, a group home, an office or business, can be read by anyone at that destination. A card can be examined by an inspector searching for possible illegal activity. A letter cannot be read without an opening which constitutes a violation of the right of privacy. It is unquestionable that there is a vast difference in privacy of communications between a letter and a card. That total difference in privacy should be reflected in a significant rate

difference between cards and letters.

COMMUNICATION QUANTITY - The Postal Service argues that the vast difference in the amount of information that can be conveyed by a letter and a card has not "diminished over time or to any degree since Docket No. MC95-1". USPS Init.Br. at V-69. Docket No. MC95-1 was a classification case pursuant to §3623; it did not establish standards for rate making pursuant to §3622. The Postal Service does not deny that there is a tremendous difference in the quantity of communication value between cards and letters, but appears to suggest that such a difference should be ignored in setting the final rates for those two subclasses. The relative communication values to the public of the services provided by the two subclasses is a statutory criterion which should be reflected in a very substantial rate difference in accordance with the requirement of §3622(b)(2).

RELATIVE WEIGHT - The Postal Service states that "weight should seem to be a driver only in determining the volume variable mail processing and delivery costs". USPS Init.Br. at V-70. It is APPA's perception that weight imposes burdens on carriers, both in the structuring of park and walk carrier routes, on the carriers themselves as they walk their routes, and upon other transportation functions. Some of those burdens may not be reflected in the calculation of volume variable costs. APPA's reference to the USPS having implemented a half rate for a half ounce letter in international mail was merely an illustration that the Postal Service itself has recognized the significance of weight

differentials in areas where it has total discretion over rates.

HISTORICAL CARD/LETTER RELATIONSHIPS - The Postal Service states "Nor did he [Appa's witness] offer any compelling basis for Docket No. R97-1 serving as a forum for the distribution of reparations for 112 years of 'wrong' endured by postcard mailers." USPS Init.Br.at V-67. At no time has APPA, or its witness, suggested that any reparations were being sought, or that post card/letter relationships were wrong for 112 years. Quite to the contrary, it is APPA's view that throughout more than half of those years, the rates of a penny postcard and a 2 or 3 cent letter represented a very proper relationship. It was only in recent times, including the rate making process under the Postal Reorganization Act, that the rates for cards were increased to a much higher card/letter ratio than the early historical relationship. Tr. 20/10249-51. It is APPA's perspective that the criteria for rate making contained in §3622, when applied to letters and cards, compel a rate relationship far more consistent with the historical relationship than the rates proposed by the Postal Service in this proceeding.

In Docket No. R90-1, the Commission recommended a 15% increase in 1st Class letter rates and a 27% increase in the card rate (from 15 cents to 19 cents. Tr. 20/10251. If an across-the-board 15% rate increase had been applied to both letters and cards, the resulting card rate would have been 17 cents, not 19 cents. The pre-Docket No. R90-1 card/letter rate relationship was already out of line, and that excessive four cent increase in the card rate

made in Docket No.R90-1 was truly punitive to the public. No "reparations" are requested, but APPA does urge the Commission to look backwards at those excessive increases in card rates, and take a step toward restoring a reasonable rate for a very low-value means of public communication.

COST COVERAGE AND DEMAND ELASTICITY - In both the testimony submitted, and in its Trial Brief, APPA demonstrated that the proposed card rates would generate excessive cost coverages, and fail to reflect the tremendous difference in demand price elasticity between cards and letters. Tr. 20/10256, 10259-60. Those two factors are standard technical criteria used by the Commission in deciding mark-ups over attributable costs. The USPS does not state any objection to APPA's requests regarding the application of those factors by the Commission in its decision recommending reasonable rate relationships.

WORK-SHARING RATE DIFFERENTIALS - In both its Trial and Initial Briefs, and its testimony, APPA demonstrated that the proposed rate differentials between single-piece and work-sharing cards fail to give recognition to real, measurable, cost differentials between the postal services provided, as required by §3622(b)(3). The Postal Service's response is merely that their proposal "maintains the current 2-cent card discount and parallels the proposed discount for non-automated letters". Postal Service Init.Br. at V-21. The Postal Service appears to rely upon its arguments in favor of either a 2 cent or 2.5 cent differential between the proposed single-piece and presort letter rates. USPS

Init.Br. at V-6 et seq. As APPA has explained, the Postal Service's very confusing arguments regarding benchmarks and cost avoidance measurements fail to recognize that there are large cost differences between the services provided to the single-piece mail category and the basic presort mail category. See APPA Init.Br. at 7-13. The use of unit per-piece contributions has been widely recognized as a hands-on method of assigning institutional cost responsibilities. In R87-1 Op. at 370, ¶4038 the Commission stated that Unit, per-piece, contributions to institutional costs is a useful comparative measure. And the Commission stated in MC95-1 Op. at IV-96, ¶ 4212:

This record has reconfirmed the Commission's long-held view that workshare discounts should reflect the costs that the Postal Service avoids by worksharing, so that **the category makes the same per-piece contribution to institutional costs that it would have made had it not undergone worksharing.**"

A 3 cent differential for Basic Presort provides a slightly greater unit cost contribution than single-piece mail, and provides partial, but not total, recognition of actual and non-deniable cost differentials.

AUTOMATION ELIGIBILITY CONDITIONS - APPA has pointed out that the Automation Conditions imposed in Docket No. MC95-1, together with the elimination of the 5-digit and carrier sort rate categories, had a much more adverse impact upon bulk users of post cards than upon letter mailers. Tr. 20/10261-2, 10268-70. APPA has not requested that the 5-digit and carrier subcategories be restored, but has suggested that where mail is presorted to those levels, a relaxed automation eligibility condition could be

employed. The Postal Service has the capability of describing any technical obstacles to such a modification of eligibility conditions suggested by APPA, but has not responded to that proposal, which implies that there are no operating problems which would be generated by such an eligibility condition mitigation.

APPA requests that the Commission exercise its discretion to require some modification of card automation conditions in order to provide some relief to bulk mailers which use cards in order to keep the costs to the public to the lowest level.

CONCLUSION

In summary, contrary to the objective of §3622(b)(4), current card rates have had a very adverse impact upon the general public and upon the small publicly owned utilities which serve the public. An 18 cent card rate, and a 33 cent letter rate, would have a relationship close to the early American card/letter relationship, would more closely reflect privacy, communication quantity, and weight differences, would reflect the major difference in demand price elasticity, and would provide great benefits to the public. Tr. 20/10264. Based on the record, the Commission should recommend an 18 cent single-piece card rate, a 15 cent Basic Presort card rate, a set of Automation rates compatible with those base rates, and the Commission should direct the Postal Service to amend its eligibility conditions to allow 5-digit and carrier presorted cards to qualify for automation rates with only the sectional and carrier sequencing barcodes.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I, Eugene E. Threadgill, counsel for the American Public Power Association, hereby certify that on April 10, 1998, copies of the foregoing document have been served upon the USPS, the OCA, and all intervenors in accordance with the Rules of Practice.

